

1954

to be followed in connection with amending the Taft-Hartley Act would be postponed until Wednesday, February 17, at which time the committee would also vote on a motion by Representative Bailey, of West Virginia, to defer all consideration of Taft-Hartley legislation for the remainder of the session.

EDUCATION

Committee on Education and Labor: Ordered reported to the House H. R. 7601, authorizing appropriation to provide for a White House Conference on Education. Considered, but deferred action on, H. R. 7434, to establish a National Advisory Committee on Education; and H. R. 7446, to authorize cooperative research in education.

ALASKA—HAWAII

Committee on Interior and Insular Affairs: The Subcommittee on Territories approved the following bills for reporting to the full committee—all amended: H. R. 1570, to permit the Territory of Alaska to lease for 55 years (now 10 years) public lands reserved for educational purposes; H. R. 2683, to extend authority to the Secretary of the Interior to provide public works and enter into agreements with applicants under the Alaska Public Works Act of 1950; and H. R. 2849, to provide that land transferred by the War Department to the Territory of Hawaii under act of 1936 may be used for public (now park) purposes.

Testifying at today's session were James D. Parriott, Chief Counsel, Bureau of Land Management; B. Frank Heintzleman, Governor of Alaska; and A. M. Edwards, Chief Counsel, Office of Territories, Department of the Interior.

RIVERS AND HARBORS

Committee on Public Works: The Angell subcommittee resumed hearings today and considered river and harbor projects located in the Carolinas and Virginia on which authorizations for said projects have had favorable reports submitted by the Chief of Engineers since the passage of the act of 1950. Col. W. D. Milne, of the Corps of Engineers, explained all the projects, and Members of Congress spoke on the following projects located in their respective districts—Representative Robeson, of Virginia, on Parrotts Creek, Oyster Creek to the Atlantic Ocean, and Deep Creek (Accomack County); Representative Barden, of North Carolina, on Peltier Creek, Smith Creek (Pamlico County), and Wallace Channel (Pamlico Sound); and Representative Rivers, of South Carolina, on St. Helena Sound to Port Royal. Hearings will be continued tomorrow morning.

GENERAL TAX REVISION

Committee on Ways and Means: Announced further substantive changes agreed to during today's consideration of the revenue revision bill of 1954—

TAXATION OF TRUSTS AND ESTATES

Modified statutory Clifford Rules applied to determine whether grantor or others are to be taxed on income of trust

The committee decided to adopt a series of statutory rules to decide whether a trust's income should be taxed to the individual setting up the trust rather than to the trust itself. To a substantial extent these are the so-called Clifford Rules now provided by regulations. The rules adopted and the differences between them and the rules in the regulations are summarized, as follows:

(1) Trust income will be taxed to the grantor if he can take the principal or income back within 5 years. Under present regulations the minimum term is 10 years, or 15 years where certain administrative powers over the trust are retained by the grantor (or his wife) as trustee.

(2) As under present regulations, trust income will be taxed to the grantor if he can change the right of beneficiaries to enjoy the income or principal of a trust. As under existing regulations exceptions are made in the case of certain limited powers. In addition the committee provision provides that an independent trustee may allocate income within a limited group of beneficiaries without subjecting the grantor to tax. For this purpose an independent trustee is defined as a trustee other than the grantor and other than a related or subordinate party who is subservient to the wishes of the grantor.

(3) As under existing regulations, the grantor is to be taxed if he retains certain broad administrative powers. However, under the committee provision the grantor will not be taxed if an independent trustee makes loans to the grantor with adequate security and interest.

(4) The "revocable trust" and "income for benefit of grantor" provisions already in the code are modified only to provide that the grantor will not be taxed if his powers to take back the trust property or to accumulate income for his benefit apply only after 5 years.

(5) The so-called Mallincrodt regulations are placed in the code. These regulations provide that a person, other than the grantor, may be taxed on the trust income if he has a right to acquire the income or principal of the trust. These regulations were modified to provide that where such a person can only obtain income for the support of dependents he will be taxed only to the extent he does so.

INCOME IN RESPECT OF A DECEDENT

Under present law certain income items received after the death of an individual are considered as income to the decedent's estate or beneficiary and any estate tax already paid with respect to these items is deductible in computing the estate's or beneficiary's income tax on these items. The committee retained this treatment and has extended it to certain types of income to which it does not presently apply.

1. *Successive decedents.*—Under present law this treatment is available only in the case of one death. The committee has extended it to apply to successive decedents. This would apply, for example, where a widow upon her death passes to her children income rights she received on the death of her husband.

2. *Beneficiaries of trusts and estates.*—Where income attributable to a decedent is received by a trust or estate and distributed by it, the beneficiary presently may not receive this special tax treatment, but will under the committee bill.

3. *Installment obligations.*—This special treatment for income received in respect of a decedent is made applicable under the committee's bill to income from installment sales. At present under a bonding procedure the income tax on income from these sales can be postponed until receipt of the money but no deduction is allowed for any estate tax paid.

SOIL AND WATER CONSERVATION EXPENDITURES

The committee adopted a provision which permits farmers to expense, rather than to capitalize, expenditures for soil and water conservation, including expenditures for the prevention of land erosion.

The soil and water conservation expenditures deducted cannot exceed 25 percent of the gross income derived from farming for any 1 year. However, in any year in which actual expenditures of this type are more than the maximum permitted, the excess of these expenditures can be carried over to the following year and will be considered the first expenditures made in that year. Then any excess of these expenditures, plus the soil or water conservation expenditures actually made in the second year, over 25 percent of the gross income of the second year can again be carried forward.

Taxpayers must decide whether they are going to expense soil and water conservation expenditures in the first year after 1953 in which they have such expenditures and must continue this policy with respect to subsequent similar expenditures unless they receive permission from the Secretary or his delegate to make a change.

Expenditures for soil and water conservation includes expenditures for treatment or moving of earth including—

- (1) Leveling, grading, and terracing;
- (2) Contour furrowing;
- (3) Construction of diversion channels and drainage ditches;
- (4) Control and protection of watercourses, outlets, and pounds;
- (5) Eradication of brush; and
- (6) Planting of windbreaks.

These expenditures do not include the purchase or construction of described facilities, appliances, and structures subject to allowance for depreciation.

IMPROPER ACCUMULATION OF SURPLUS (FORMERLY SEC. 102)

At the present time a corporation which is accumulating its earnings (other than for a business purpose) in order to avoid having this income taxed to its shareholders at their individual income tax rates is subject to a tax of 27½ to 38½ percent.

The committee has retained this provision but modified the more harsh aspects of the present provision. These are summarized below:

- (1) The burden of proving that an accumulation is unreasonable before the Tax Court is to be upon the Government if the taxpayer has previously submitted a statement indicating his reasons (and the related facts) for making the accumulations. This shift of the burden of proof applies only to the reasons given in the taxpayer's statement.
- (2) The first \$30,000 of accumulated earnings and profits of any corporation is not to be subject to this tax. This will be especially beneficial to small new businesses.
- (3) The tax is made inapplicable to publically held corporations. These are defined as corporations with more than 1,500 stockholders and with no stockholder (including relatives) who owns more than 10 percent of the stock of the company.
- (4) Dividends paid in the first 75 days after the close of a year are to be treated as though made in the prior year.
- (5) Accumulated funds will not need to be reinvested immediately in the business to be free of this tax.

PERSONAL HOLDING COMPANIES

At present companies classified as personal holding companies ("incorporated pocketbooks") are subject to a special tax of from 75 to 85 percent on their undistributed earnings.

The committee retained the personal holding company tax but made several relatively minor changes in this tax. These are summarized below:

- (1) Present law provides generally that once a corporation qualifies as a personal holding company because 80 percent of its gross income came from income considered to be in the

personal holding company category (generally investment income), it will continue in this category if 70 percent or more of its income in subsequent years was personal holding company income. The committee's bill eliminates the special 70-percent test and provides that in any taxable year personal holding company income must constitute 80 percent of gross income.

(2) Under present law the personal holding company tax may be applied to a corporation because it individually meets the personal holding company tests even though it files a consolidated return with a group of corporations which do not meet these tests. The committee's bill provides that no member of a group of corporations filing a consolidated return is to be considered a personal holding company unless the group as a whole meets the tests.

(3) Other minor changes were made to adjustments made in computing personal holding company income and in the text of types of corporations exempt from tax.

BANKS

Stock which a bank owns in another bank (if it owns 95 percent) will be considered as an ordinary loss upon the stock becoming worthless, rather than a capital loss as under present law.

Committee recessed until tomorrow.

Joint Committee Meetings

PRESIDENT'S ECONOMIC REPORT

Joint Committee on the Economic Report: Committee continued hearings on the President's economic report, with a panel discussion today on the consumption outlook and implications for Federal economic policy. Topics under discussion today were (1) consumer income, expenditures, and savings, (2) consumer non-durable goods, (3) consumer durable goods, (4) taxation and consumption, and (5) general. Witnesses heard today were Rensis Likert, director, Institute for Social Research, University of Michigan; Gordon B. Hattersley vice president, Sears, Roebuck & Co., Chicago; A. W. Zelomek, president, International Statistical Bureau, Inc., New York City; George P. Hitchings, manager, Economic Analysis Department, Ford Motor Co., Dearborn, Mich.; Gerhard Colm, Chief Economist, National Planning Association, Washington, D. C.; and Mrs. Aryness J. Wickens, Deputy Commissioner, Bureau of Labor Statistics, Labor Department. Hearings continue tomorrow.

D. C. PUBLIC WORKS

Joint meeting: Fiscal Affairs Subcommittees of Senate and House District of Columbia Committees met in executive session for the consideration of H. R. 7389, to authorize and finance a program of public works construction for the D. C., made no announcements, and will resume its consideration tomorrow.

LEGISLATIVE RETIREMENT

Conferees on S. 2175, retirement of employees in the legislative branch, met in executive session to resolve the differences between the Senate- and House-passed versions of the bill. No final agreement had been reached when conferees continued in late evening session.